

DOCKET SECTION
BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE CONSUMER ADVOCATE

Postal Rate and Fee Changes, 1997

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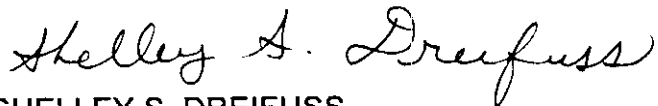
Docket No. R97-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: JOHN H. O'BANNON (USPS/OCA-T200-2-5)
(JANUARY 26, 1998)

The Office of the Consumer Advocate hereby submits the answers of John H. O'Bannon to interrogatories USPS/OCA-T200-2-5, dated January 12, 1998. Each interrogatory is stated verbatim and is followed by the response.

Witness O'Bannon is out of town and his declaration will be filed later.

Respectfully submitted,



SHELLEY S. DREIFUSS

Attorney

Office of the Consumer Advocate

ANSWERS OF OCA WITNESS JOHN H. O'BANNON
TO INTERROGATORIES USPS/OCA-T200-2-5

USPS/OCA-T200-2. Please refer to your testimony at line 14 on page 6 where you refer to "some composite good." Does this composite good include Priority Mail? Please explain your answer fully.

A. The composite good mentioned in my testimony contains every other possible good an individual could purchase. Thus, it would necessarily include Priority Mail.

ANSWERS OF OCA WITNESS JOHN H. O'BANNON
TO INTERROGATORIES USPS/OCA-T200-2-5

USPS/OCA-T200-3. Please refer to your testimony at lines 12 through 14 on page 7 where you state that "the next basic assumption applied is that each Postal Service good's cell within a category represents a good that is unrelated to every other cell in that category." [footnote omitted]

(a) Is it your understanding that some mailers participate in "dropshipping" or "zone skipping" by which they arrange for transportation to enter their mail deeper into the postal system? If not, please explain.

(b) Please explain your understanding as to whether the rates charged for the same weight item shipped to different zones would have any bearing on the decision of the mailer to participate in dropshipping or zone-skipping activities as described in part a. Please also explain how such behavior is consistent with the assumption stated in your testimony at lines 12 through 14 of page 7.

(c) Is it your understanding that some mailers may split shipments to a particular address, sending part of the shipment in one box and part in another box? If not, please explain.

(d) Please explain your understanding as to whether the rates charged within the same zone for different weight items would have any bearing on the decision of the mailer to participate in shipment splitting activities as described in part c. Please also explain how such behavior is consistent with the assumption stated in your testimony at lines 12 through 14 of page 7.

(e) Is it your understanding that some mailers may consolidate shipments to a particular address, sending two items to the same address in one box? If not, please explain.

(f) Please explain your understanding as to whether the rates charged within the same zone for different weight items would have any bearing on the decision of the mailer to participate in consolidating activities described in part e. Please also explain how such behavior is consistent with the assumption stated in your testimony at lines 12 through 14 of page 7.

A. a.-f. Each of these situations is an independent empirical question. Arguments could be formulated to support either the agreeing or contrary position on each of these issues. An empirical study, perhaps a representative survey of mailers, could be

ANSWERS OF OCA WITNESS JOHN H. O'BANNON
TO INTERROGATORIES USPS/OCA-T200-2-5

conducted to answer these, but I do not have, nor am I aware of, the data necessary to answer these questions beyond spurious opinion or anecdotal evidence.

ANSWERS OF OCA WITNESS JOHN H. O'BANNON
TO INTERROGATORIES USPS/OCA-T200-2-5

USPS/OCA-T200-4. Please refer to your testimony at lines 10 and 11 on page 9 where you state, "Since neither bundle can be strictly revealed preferred," Please clarify the meaning of this statement.

A. This is an economic definition of preference relationships, whose underpinnings can be found in simple mathematics. In mathematics, one variable, call it x , can be described as being weakly greater than another, say y , and typically this situation is written as $x \geq y$. Similarly, if x is strictly greater than y , then we write $x > y$. This mathematical description can be extended to preference relations. One bundle can be strictly preferred over another by a consumer. If neither bundle can be strictly revealed preferred, then the equivalence case results. However, equivalence is not used to describe preference relations. Instead, we describe the consumer as being indifferent between two bundles. Lines 9 and 10 on page 9 of my testimony state that the consumer views the two bundles with indifference. The two bundles were selected precisely so that this situation would result. That is, the consumer was given enough income, under the new prices, to make him or her indifferent between the original bundle and the new bundle with the additional income. Figure 1 in Appendix 2 clearly shows the two bundles lying on the same indifference curve.

ANSWERS OF OCA WITNESS JOHN H. O'BANNON
TO INTERROGATORIES USPS/OCA-T200-2-5

USPS/OCA-T200-5. Please refer to your testimony at lines 6 through 12 of page 11.

(a) Is it your understanding that the volume changes by cell that appear after rates change is the result of decisions made by many mailers whose distributions of pieces by weight and zone vary? If your answer is not affirmative, please explain fully.

(b) Is it possible that the mailers in question make their mailing decisions based on the aggregate price of their total mailing, and not based on the individual price of any particular piece? If your answer is not affirmative, please explain fully.

(c) Is it possible that the cells for which you have observed "positive implicit own-price elasticities" represent only small portions of the total number of pieces sent by any particular mailer? If your answer is not affirmative, please explain fully.

A. (a) This statement may be true. It does not provide support for the proportional method of distribution that Witness Mayes used. Furthermore, it doesn't matter whether the market is examined at an individual or aggregate level. The aggregate relationship must hold for every individual. Specifically, each individual consumer's habits also need to satisfy Equation 9 on page 11 of my testimony. To apply the equation to an individual, we only have to put zero quantity values in for any goods the individual does not consume.

(b) Again, this seems to be an empirical question similar to those asked in USPS/OCA-T200-3 above. Either side of the argument could be the reality, but without evidence, any conclusion we draw is merely speculation. If the empirical fact is that mailers are looking only at the aggregate price of their total mailing, then cross-price elasticities among cells are immaterial, as I assumed in my testimony and as was addressed in USPS/OCA-T200-1.

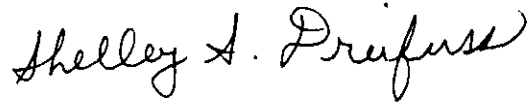
(c) See my answers to parts a. and b. immediately above. Again this question does not address the issue of how Witness Mayes distributed the volume among the cells. See my answer to USPS/OCA-T200-1-k for an example detailing how

ANSWERS OF OCA WITNESS JOHN H. O'BANNON
TO INTERROGATORIES USPS/OCA-T200-2-5

it does not matter where the cells with positive implicit own price elasticities are, but it is the fact that they result in any cells that is indicative of the problem.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

A handwritten signature in black ink, reading "Shelley S. Dreifuss". The signature is written in a cursive, flowing style.

SHELLEY S. DREIFUSS
Attorney

Washington, DC 20268-0001
January 26, 1998